

**MINUTES OF THE MEETING OF  
THE ADVISORY COMMITTEE OF THE  
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

**Wednesday, October 5, 2005**

**Officer of the Commissioner of Insurance  
125 South Webster, Room 227  
Madison, Wisconsin**

**PRESENT:** Kevin Houlihan, Chair, City of Madison  
Glinda Loving, Vice Chair, Milwaukee Metropolitan Sewage District  
Carole Charles, Outagamie County  
Connie Goss, Chippewa County  
Ken Rogers, Eleva Strum School District  
John Rath, Milwaukee County  
Harold Reckelberg, Town of Luxemburg  
John Roth, Lake Geneva School District  
Doug Saubert, City of Whitewater  
Julee Helt, Village of Waunakee  
Ken Tronnier, Portage County  
Barb Wegner, Dane County  
Jerry Runice, Berlin School District

**GUESTS:** Jorge Gomez, Commissioner of Insurance  
Eileen Mallow, Deputy Commissioner of the Insurance  
Dan Bubolz, Office of the Commissioner of Insurance, Fund Officer  
Lowell Carter, The ASU Group  
Dean Boes, The ASU Group  
Sue Hoffman, The ASU Group  
Greg Grunow, The ASU Group  
Dave Marchant, Marchant Consulting

**ABSENT:** Laura Stauffer, 2<sup>nd</sup> Vice Chair, Waukesha County  
Don LaFontaine, City of Oshkosh  
Nicholas Alioto, Tigerton School District  
Andrew Licata, Hayward Community Schools  
Keith Lucias, Ashwaubenon School District  
Diane Pertzborn, School District of Lodi  
Gary Hansen, Rosendale-Brandon School District  
Peter Masias, City of Green Bay

Kevin Houlihan **called meeting to order** at 9:30 a.m.

Kevin Houlihan welcomed attendees and introductions were made. Kevin thanked Peter Masias, April Zelinski and Anne Staples for their service to the Fund. Dean Boes was introduced as the new District Manager for ASU at the Madison office.

## **AGENDA REVIEW**

Kevin asked for additions or changes to the agenda and there were none.

Upon a motion duly made by John Rath and seconded by Glinda Loving, it was unanimously

RESOLVED, that the agenda for the October 5, 2005 meeting be approved.

## **REVIEW AND APPROVAL OF APRIL 6, 2005 MINUTES**

Upon a motion duly made by Harold Reckelberg and seconded by John Roth, it was unanimously

RESOLVED, that the minutes of the Advisory Committee of April 6, 2005 are approved as presented.

## **OLD BUSINESS/MANAGERS REPORT**

Eileen Mallow updated the Committee regarding the Legislative Audit Bureau Audit. The LAB is in the final stages of the audit. Eileen Mallow has not received a draft report yet, but is expecting one soon and will be preparing a response. The biggest issue was the destruction of records. It appears the destruction of records by the previous administrator was an honest mistake and not fraud.

Glinda Loving and Julie Helt both asked about records destructions and what has been done to correct future problems. Mallow explained there will be an amendment to the ASU contract dealing with RDA, and that training of ASU Staff will be required annually.

Dan Bubolz provided an update on the PML Report. Dan referred to his handout on PML report. The report is broken out into several sections including addressing the top 10 risks to the Fund. Dan pointed out that the details of this report will be shared with the specific Policyholders prior to being released.

The PML Report also addresses flood, terrorism and fire sprinkler protection. Again focusing on highest concentration of properties in determining expected potential loss. The Fund recognizes this report is consultative in nature and not directive. Dan Bubolz suggested the Reinsurance Committee look at the study from a reinsurance perspective

John Rath asked about the time frame for getting the full report, as Milwaukee County had properties in the study. There was a lively discussion on the confidentiality of some of the findings of the study and what information is confidential and should not be subject to Wisconsin's open records statutes, versus proprietary information. Part of the report does deal with terrorism and a "worst case" scenario and the impact of such an event.

Glinda Loving asked if properties in the study will see an increase in value/premium. Dan commented that PML study may reveal that some of those properties may be under valued. Glinda Loving asked if this would create any individual rating issues. John Rath said that would be a rate committee issue and this is a Pool/Fund and individual rating would be risky. Eileen Mallow also said we need to be cautious on this issue.

John Rath referred to terrorism in PML and asked if he would get a copy of the report. Eileen Mallow and Dan Bubolz indicated it is sensitive info referring to a terrorism target area. It is confidential info and OCI does not want to make it subject to open records. Eileen Mallow said that OCI is having discussions with Legal on what they can share. Glinda Loving and John Rath both expressed their concern that there is a security issue but would like to see info if possible. Both Glinda and John support OCI on the confidentiality issue as this is sensitive information.

The next step for the PML Study is to get feedback from specific policy holders and then a final report would be prepared. That would be released by end of October if possible.

Reports will be released to The Loss Control Sub-Committee, Carole Charles; and The Reinsurance Sub-Committee, Glinda Loving.

Dan Bubolz reported the status of the ESOV Project.

Dan explained his 3 prong approach to the electronic statement of values project.

1. Complete database to collect information needed for statement of values.
2. Work with Marchant Consulting and ASU to select host for the web server, for web interface with appropriate security to collect data via web. OCI is working on amendments to contracts to make this happen.
3. Have in place a process to enter, print, distribute and edit SOV data from the Madison, ASU office.

The majority of work over the next several months will involve Dave Marchant and ASU, working with potential vendors, and involve significant programming.

Benefits of this project include a more efficient and cost effective process for data entry, retrieval, trending and output along with added security online

Kevin Houlihan asked if Doug Saubert and Glinda Loving would be willing to continue their participation on the ESOV Sub-Committee and both responded affirmatively.

## **ADMINISTRATOR'S REPORT**

Greg Grunow discussed the 2005FY results for Claims. The information shows the number of paid claims was down from the previous year, however the total dollars paid for claims was consistent with the previous year. Greg did indicate that there was in excess of 4.6 million reserved for the first quarter of FY2006. This is due to the tornados of Aug 18.

Also included with the claims data were new graphs which broke out each entity type and the most frequent loss causes for each entity type.

Sue Hoffman reviewed the **Policy Services** data. Insurance in force is up 3.6% but annual premium in force is down 4.7% due to continued use of higher deductibles and loss of accounts. Total number of policies written is down by 43 (3.6%).

The Entity reports (Policy Count by Entity Type, Coverage in Force by Entity Type and Premium in Force by Entity Type) now include Total Entities in the State to reflect what percentage of each entity type is written. These statistics have not changed significantly from last year.

Additional reports in the packet include New Business by Entity Type, Return Business by Entity Type, Cancelled Business by Entity Type, and the New Business Quote Log.

The Fund/ASU is quoting more new business and with new lower rates (effective 7/1/05) and anticipates replacing many of the lost accounts.

A discussion followed on the various reasons that insureds are leaving the fund. Those include: new account managers, increased marketing by competition, and lower pricing.

John Rath asked what is driving the loss of policies. Sue responded: high rates and competition. Kevin Houlihan asked how we could lose business with the valuation policy. Sue responded and gave an example that too many of the insured look only at the premium and not the underlying factors.

John Rath expanded on that issue and gave an example of the benefits of the valuation policy.

John Roth asked about cancellations by entity. Sue responded that we can look at percentages. A report will be prepared by ASU for the next meeting. Small accounts such as villages are the largest group. Eileen Mallow brought up that there is a large turnover in village and town clerks.

Eileen Mallow brought up the WASBO conference and that OCI is available to do those presentations. John Rath asked about how OCI does the presentation. Dan Bubolz expanded on the presentation. Dan explained that WASCO asked that speakers address the history and organization of the Fund, the renewal process, comparing quotes and controlling losses. This information was provided in two seminars totaling approximately two hours

Dan Bubolz also commented on positive survey results concerning customer service. John Roth suggested that January may be an excellent time of the year to do those types of presentations. Dan also mentioned that the Fund can not market, but OCI likes to attend association or organization meetings for informational purposes.

Connie Goss mentioned the Wisconsin PRIMA may be asking OCI/ASU at the February meeting in Madison.

Dean Boes referred the Committee to the table in their packet detailing the **Customer Service Surveys** for Policy Administration. Dean Boes discussed the continued positive results from surveys for both policy renewals and claims. Dean pointed out that ASU believes the positive results and high response rate are a reflection of ASU Staff

commitment to LGPIF service guidelines for policy holder response and turnaround on policy or claims inquiries.

Dean explained that the surveys are in transition (from paper) to being all electronic and completed on-line. ASU will continue to publish information, including in the newsletter, to educate policy holders on completing surveys on-line.

Lowell emphasized the importance of the **LGPIF Newsletters** and that they will continue to be published in January and July. Eileen Mallow asked for suggestions on the newsletters. Julee Helt suggested a definitions or questions sections on coverages, alarm credits or more exotic or unusual types of items.

## **FINANCIAL REPORT**

The Fund experienced a very good year as a result stable premium income, low losses and low expenses. The net income of \$10.3 million for fiscal year ended June 30, 2005, followed a similar net income of \$9.8 for fiscal year ended June 30, 2004.

Key financial statistics included in the statutory basis financial are as follows (in millions):

	June 30, 2005	June 30, 2004
Total Assets	\$45.9	\$36.1
Policyholders Surplus	\$34.5	\$24.3
	Year Ended June 30, 2005	Year Ended June 30, 2004
Direct Premium Earned	\$25.5	\$26.7
Direct Losses Incurred	\$ 9.3	\$ 9.9
Underwriting Gain	\$ 9.2	\$ 9.0
Net Income	\$10.3	\$9.8

The Fund's net combined ratio of .55 fiscal year ended June 30, 2005, paralleled similar results of the previous year.

## **COMMITTEE REPORTS**

Julee Helt presented the report for the **Claims and Policy Issues Subcommittee**.

There was a brief discussion on Waiver of Subrogation, Extra Expense and the "Forgot Clause."

Mallow asked about collecting back premium on forgot clause. Julee responded that it was discussed that the Fund would collect back the previous year. Barb asked about collecting back to unlimited # of years to get the coverage. Dan Bubolz responded that if we allowed that, the policy holder could weigh the costs of not getting the coverage.

Mallow stated OCI would take proposed policy changes to attorney for review.

#### **Waiver of Subrogation:**

Jerry moved that we approve proposed addendum wording and seconded by Glinda. Mallow stated OCI would take to attorney for review.

Upon a motion duly made by Jerry Runice and seconded by Glinda Loving, it was unanimously

RESOLVED, that the proposed addendum wording be approved as presented, as a recommendation to policy holders.

#### **Extra Expense**

Upon a motion duly made by Jerry Runice and seconded by Glinda Loving, it was unanimously

RESOLVED that the Fund limit Extra Expense Coverage in the Policy to \$5,000,000 with an option to purchase additional coverage.

#### **New location/Forgot Clause**

Dave Marchant asked about potential abusers and Eileen Mallow commented that the Fund has the right to audit properties. Barb Wegner noted that she has to rely on others to report properties that are reported to her. Dave asked how we would calculate premium. Eileen said it would be based on current rates. John Rath suggested that administrator take care of the details.

Upon a motion duly made by Harold Reckelberg and seconded by Connie Goss, it was unanimously

RESOLVED that the time limit to report new locations be limited to the current policy period plus the previous policy period.

#### **Contractors Equipment Issue**

A motion was made by Doug Saubert and seconded by Harold Reckelberg, to

Increase the automatic limit of \$5,000 for contractors' equipment in the "V" policy to \$10,000 with a slight increase in rates recoup lost premium.

Kevin Houlihan opened floor discussion:

Carole Charles said she could not support this without knowing what the increased rates would be. Lowell Carter briefly detailed the loss of premium with this resolution. John Rath suggested that this be referred back to the subcommittee for more discussion.

Doug and Harold duly rescinded their motions.

Upon a motion duly made by Doug Suabert and seconded by Glinda Loving, it was unanimously

RESOLVED that the issue be referred back to sub-committee for rating issues in reference to the "slight increase".

### **Blanket Contractors Equipment**

Julee Helt asked if this is related to the previous issue and should it be referred to rating committee. Dan Bubolz said he would work with ASU on rating scenarios and refer to rating sub-committee.

Carole Charles gave the report for the **Loss Control Subcommittee**

No motions came out the loss control sub-committee. The committee discussed experience rating but it appears it is being addressed in the dispersion credit plan. This was referred to the rating subcommittee.

The Committee also discussed the educational seminars and referred to earlier discussion on presentation of Fund information to associations and seminars.

Carole noted loss control has been an issue and usually loss control is part of the property package from P&C Insurers. The Fund does not have that. She stated that we realize that can not be added to the fund without adding premium to pay for the loss control service. She added, the Committee needs additional loss data to do a better job of analyzing data. It appears most losses come down to fire losses and there may not be much the Fund can do, other than addressing issues in the newsletter.

Eileen Mallow pointed out the PML study does address some of those issues.

Carole noted that there are loss control resources available and the committee will put together a list of resources. Eileen asked if the fire departments do inspections. There was a brief discussion indicating many do.

Glinda Loving noted she would like to pursue loss control programs with the Fund. Eileen said OCI is not apposed to loss control programs and commented that there is a need to discuss cost and services. Dan Bubolz commented there are companies that offer this service and needs to know what service is needed and costs insureds are willing to pay. Glinda noted that possibly other members could provide services to smaller entities.

Julee pointed out that the state or the city may be subject to local or state ordinances that would approve the construction plan. Ordinance usually addresses minimum requirements. Glinda commented that she believes we can do a better job of loss control.

Carole discussed reporting all claims even if under the deductible to have data on all claims. One question that came up was the concern that this info could be used against

the policy holder in rating or canceling the policy. Eileen encouraged policyholders to file all claims/losses. Sue Hoffman pointed out this is not factored in the rating process. Glinda pointed out that if we have 3 fires under the deductible, obviously there is some loss control needed.

Dan Bubolz pointed out as more policy holders are increasing their deductibles. The Fund's Pinsoft system tracts deductibles and aggregates to help insureds with determining their deductibles. Actuaries recommend that all claims be reported regardless of loss in reference to the limit and deductibles.

Carole suggested putting the advantages of reporting the losses below the deductible in the newsletter.

John Rath gave the report for the **Rate Analysis Subcommittee**.

John Rath commented on the confusion of the dispersion credit plan and suggested that Dave Marchant walk through the plan at a future Rate Analysis Subcommittee meeting.

John said the committee did review rates and appear to be adequate and we may have even gone a little overboard.

Committee has not come to any conclusion on experience rating. Committee will discuss at next meeting.

John gave a brief history of rates, reinsurance and losses and noting surplus was precariously low, when the committee recommended rate increases. That increase (along with higher deductibles and lower losses) has resulted in the improved surplus position. The subcommittee looked at surplus and competition. Competitors are being very aggressive and entities are accepting bids from competitors based on money alone. The Fund's reinsurance market is going to change due to recent hurricanes. Even if reinsurance doubles, the committee feels a dividend is appropriate, based on current surplus. John pointed out that a dividend is a one time recommendation. John added that the subcommittee did have concerns about the dividend relative to reinsurance.

The Subcommittee did recommend a 10% dividend. Harold Reckelberg said he thought the dividend plan was a better option than rate decrease.

A motion duly made by John Rath and seconded by Julee Helt to

RECOMMEND a 10% dividend of earned premium as of June 30, 2005 be paid to the policy holders of record on that date on a pro rata basis.

Kevin Houlihan opened the floor for discussion.

Commissioner Gomez discussed his concerns of reducing the surplus at this time. He did compliment the committee on their role with the Fund. He pointed out that the Fund has made major improvements the last two years. Commissioner Gomez commented on a certain amount of uncertainty in the market with P&C with the Insurance industry and reinsurance relative to recent hurricane events.



Commissioner Gomez recommended the Fund should have actuarial support to implement a dividend, taking all factors into consideration. The Fund has been successful in leveraging itself for success which has been contrary to the industry.

Commissioner Gomez also recommended putting off the dividend, and revisiting rates and the dividend next year. In the interim look at getting an actuarial analysis and looking at a long term dividend plan. The next actuarial report will be in March 2006.

John Roth commented that schools had a large rate increase and there is significant market pressure. He suggested the dividend may be a marketing advantage for the Fund, especially for schools.

Carole supported the comments of the commissioner concerning the reinsurance market. She noted, she does not believe the dividend will be a marketing advantage. She believes the market overall will be facing the same pressure as the rest of the industry.

Jerry Runice noted that bids he has sent out for proposal have not been able to beat the Fund, and, based on the situation that has happened with the hurricanes this year it puts the Fund in a situation to not change rates or dividends at this point. Jerry added, timing is not good to support this at this point. Glinda supported Jerry's position and added she would like to see the actuarial results.

Jerry Runice added, in reference to the 11 schools the Fund has lost, that revenue limits are very strict on schools. There are a lot of new administrators at schools who look at where they can cut budget money. They are not comparing apples to apples and they are taking the low bids.

Commissioner Gomez pointed out that what he is seeing in the industry is the fluctuations in the market. Rate stability and predictability are important to policyholders. Is it better to have a dividend program in lieu of a one time dividend. Having a well planned out dividend program makes more sense than a one time dividend. He pointed out that the time coming up will be very unpredictable. Reinsurance markets will be very difficult.

Dan Bubolz said that reinsurance will be addressed again in the spring of 2006 and a larger surplus may impact the decision making, i.e. pricing on the reinsurance.

Connie Goss supported a slower approach, reviewing the actuarial report, and looking at a long term dividend plan. Doug Saubert recommended the actuarial report go to Rate subcommittee in spring of 2006 and that OCI/ASU Staff research dividend plans.

Kevin Houlihan called for vote on the resolution and motion failed.

### **Boiler and Machinery**

Committee also recommended the Policy Committee look at Boiler and Machinery Coverage. Kevin referred this question to Dan Bubolz. Dan pointed out that OCI does not have authority to write at this point. This coverage has low loss ratios and high expenses. John Rath suggested the Fund look at recommending to a company. Bubolz said the Fund would continue to investigate this coverage.

Glinda Loving gave the report for the **Reinsurance/Flood Subcommittee**.

Glinda referred to the Willis Advocacy report. She noted major accomplishments by Willis in the report and their key objectives. She noted the obvious self-serving nature of this report.

## **COMMITTEE MEMBERSHIP/TERMS & APPOINTMENTS**

Kevin Houlihan accepted Peter Masias' resignation.

Kevin pointed out that the Committee is at limits for by-laws concerning appointments. Dan expressed concern that we should make every effort to fill Peter's vacancy with a city person.

Kevin asked for discussion on the vacancy left by Peter Masias. There was lively discussion on what entity this vacancy should be filled from. Kevin Houlihan pointed out that it is a city vacancy but, as chairman, he has the authority choose any entity type, but at the same time making his best effort to follow By Laws guidelines.

Dan Bubolz has received interest to be on the Advisory Committee from Tom Wohlleber from the Middleton/Cross Plains School District.

Julee Helt pointed out that she thought it important to maintain the integrity of the appointments by following the guidelines in the By Laws as not to skew the judgment of the Advisory Committee.

John Rath made the motion to appoint Tom Wohlleber to the Advisory Committee and John Roth seconded. There was not a vote.

John Rath and John Roth both recalled their motions.

Upon a motion duly made by Ken Tronnier and seconded by Doug Saubert, it was unanimously

RESOLVED, to accept the resignation of Peter Masias and have Chairman Houlihan solicit from the policy holders to fill the City appointment.

In accordance with the Advisory Committee By Laws that were adopted in October 2003, Kevin Houlihan conducted the appointment of members to the Advisory Committee in accordance to the schedule in the meeting packets. Kevin reappointed all seven members whose terms were due to expire on December 31, 2005. These seven Members have already complied with the requirement to submit letters from their employers within sixty (60) days to the Administrator verifying that they have the approval to represent their entity on the Committee.

## **SUBCOMMITTEES**

Connie Goss was appointed to the Loss Control Subcommittee.

John Rath asked to be removed from the Claims and Policy Sub-Committee.

Ken Rogers volunteered to replace John Rath on the Claims and Policy Sub-Committee.

As Chairman of the Advisory Committee, Kevin Houlihan duly appointed those individuals to their respective committees.

## **NEXT MEETING DATE**

The Spring meeting of the LGPIF Advisory Committee will be April 5, 2006, at 9:30AM in Madison at the Office of the Commissioner.

## **ADJOURNMENT**

Upon a motion duly made by Carole Charles and seconded by Glinda Loving, it was unanimously

RESOLVED, that the meeting of the Advisory Committee be adjourned at 12:20 p.m.

Respectfully submitted,

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Dean Boes, Acting Secretary

Date

ATTEST:

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Kevin Houlihan, Chair

Date